1990 ANNUAL REPORT

SEDCO

SASKATCHEWAN ECONOMIC
DEVELOPMENT CORPORATION

91-04194/

The Corporation

Since establishment in 1963, the Saskatchewan Economic Development Corporation has built a province-wide reputation for developing and providing services to facilitate economic development and diversification in Saskatchewan.

The corporation provides a wide range of financial and property services to business in nearly all sectors of the provincial economy. Emphasis is directed to small business.

In all its activities, SEDCO's priority is to assist in the creation and maintenance of jobs for people in Saskatchewan.

SEDCO offices are located in Regina and Saskatoon to deliver service conveniently and efficiently throughout the province.

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Letter of Transmittal

March 15, 1991

To Her Honour
The Honourable Sylvia Fedoruk
Lieutenant Governor of the Province
of Saskatchewan

Madam:

I have the honour to submit herewith the Annual Report of the Saskatchewan Economic Development Corporation for the year ended December 31, 1990, including the financial statements duly certified in accordance with the Industrial Development Act.

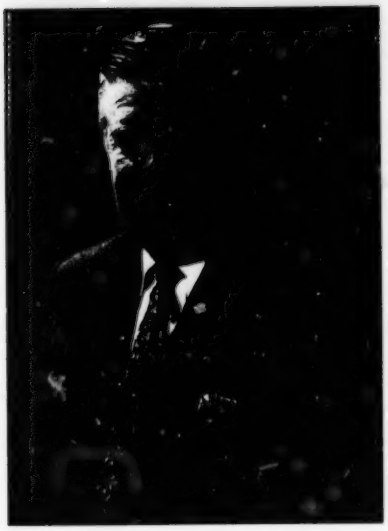
I have the honour to be,

Your obedient servant,

Rick Swenson

Hon. Rick Swenson
Minister Responsible
Saskatchewan Economic
Development Corporation

Chairman's Message



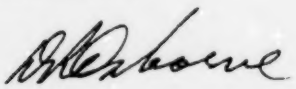
SEDCO's primary objectives continue to be to encourage economic development and diversification through provision of financial and property services with a specific focus on small business. The priority of all SEDCO activities is to create and maintain jobs for Saskatchewan people. This report outlines our progress in the achievement of these objectives and reaffirms our commitment to them.

During 1990 the corporation's activities assisted in the creation of more than 2,980 new jobs. In addition approximately 6,892 positions were maintained by a variety of SEDCO services. We believe these figures demonstrate effective economic stimulation.

Services introduced in 1989 and administered by a new division, the Participation Division, have grown and matured. For example, the division has overseen the creation of more than 200 small business loans associations. These associations, operated by local people at the community level, have approved 889 client loans for funding of approximately $4.1 million to new and existing businesses and created more than 1,270 jobs, predominantly in rural Saskatchewan.

There were substantial changes to the board of directors during 1990. We welcome the contribution of the new members, and express appreciation for the dedication and counsel of those members who have left.

On behalf of the board of directors, I thank the SEDCO management team for its advice and initiative, and extend appreciation to the Honourable Rick Swenson for his continued commitment to economic development and diversification.



Douglas R. Osborne
Chairman of the Board

President's Report

The level of SEDCO activities in 1990 remained high in a period of difficult economic conditions. The number of loan approvals, for example, was second only to 1989 when four new services were introduced.

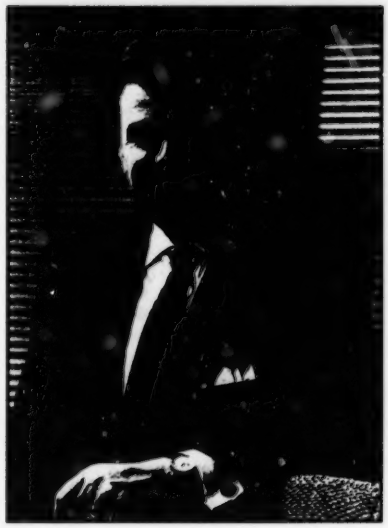
To help meet the challenges, SEDCO was a patient lender throughout the year, concentrating on helping existing clients as well as emphasizing our support of small business start-ups and expansions, especially in rural areas.

In recent years, traditional financial institutions have stiffened their policies, with the result that SEDCO has been more active in the market than in the past. Because of that trend, we strive continually to attract additional financial support from other sources for projects in which we are involved. We believe we have been successful in that attempt. For example, approved funding of about $12.7 million during 1990 by the Participation Division alone levered approximately $67.5 million from other financial sources.

The varied and flexible services offered by SEDCO assisted in creating 2,980 new jobs during 1990, a significant accomplishment even in the best of economic times and the highest in the corporation's history.

Total assets of the corporation in 1990, consisting of loans, equity investments, property holdings and other assets had an aggregate value of $252 million. Income before interest expense, provision for loss write down of property and share investments was $11.6 million. After accounting for these items, the corporation sustained a loss of $19.5 million.

It should be pointed out that $5.2 million of this loss is attributable to the Participation Division's activities. Incorporation of the Participation Division into SEDCO's financial statements resulted from a change in government policy during 1990. In 1989, SEDCO did not include the Participation Division in its financial statements.



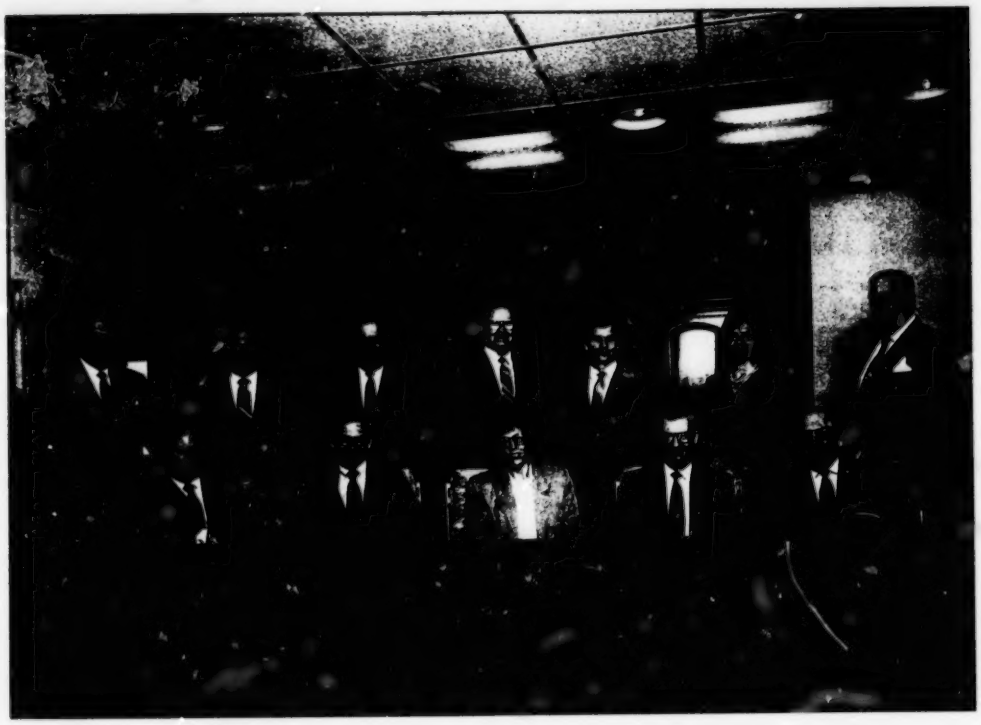
In 1990, the Saskatchewan Government Growth Fund Management Corporation engaged SEDCO to manage and administer the investment aspects of the SGGF.

SEDCO continued to support the goals and efforts of Saskatchewan Junior Achievement and Young Entrepreneurs of Saskatchewan through provision of office space and promotion of activities.

Throughout the year, SEDCO employees contributed greatly to the strength of the organization. Their talents, attitude and dedication are much appreciated.

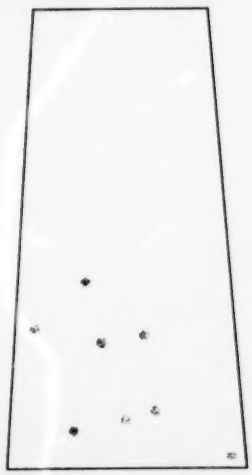
Douglas S. Price
President and Chief Executive Officer

Board of Directors



Seated, left to right:
Rob Orr, Saskatoon; Honourable Rick Swenson, Vice-Chairman; Dianne Lasek, Regina; Ian Disbery, Secretary; Gerald Hergott, Humboldt.

Standing, left to right:
Doug Price, Regina; Maynard Slater, Unity; Doug Osborne, Chairman, Regina; Ed Smith, Moose Jaw; Paul Elder, Swift Current; Shirley Beebe, Big River; Donald Flamme, Carievale.



Activity Highlights

Loans and Investments

Loan activity was maintained at approximately the same level in 1990 with **181** approvals totalling **$57,835,108.**

There was an increase in the number of jobs created. The direct jobs created totalled **549** and **3,559** positions were maintained.

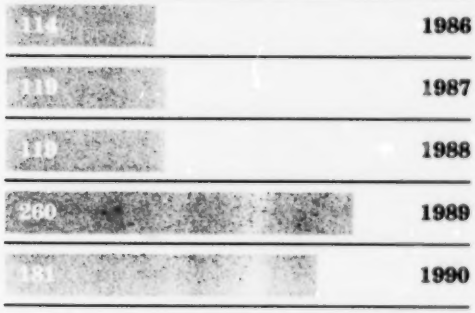
The Youth Entrepreneur Loan service remained popular, and **40** new businesses were started by young people between the ages of 18 and 30.

Working Capital Loans, introduced in 1989 and administered by the Loans and Investments Division, accounted for **25 per cent** of loan approvals within this division. A total of **43** approvals accounted for approximately **$1,657,000.**

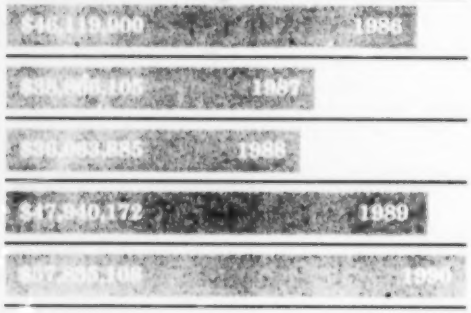
Emphasis on small business continued in 1990, and 82 per cent of the loans written were for less than $250,000.

The loan portfolio during 1990 was **$135.6 million** and total disbursements were **$31.5 million.**

Number of Loans Approved



Value of Loans Approved



Size Distribution

Loans and Investments Division

Loan Size	Number	Dollar Amount
$ 0 - $50,000	123	$ 3,647,600
50,000 - 100,000	15	1,265,595
100,000 - 250,000	10	1,713,350
250,000 - 500,000	7	2,470,000
500,000 - 1,000,000	12	10,875,000
1,000,000 - 1,500,000	3	3,536,000
Over - 1,500,000	11	34,327,563
	181	$57,835,108

Activity Highlights

Participation

The Participation Division was formed in 1989 to administer new financial services. These services were specifically designed to assist small businesses, especially in rural Saskatchewan.

After the initial surge following the announcement of the services in May of 1989, activity, though still high, levelled out and there were **180** approvals during 1990 compared with 217 during 1989. However, **1,032** jobs were created in 1990, an increase of 120. These services are designed to encourage financing from other sources, and it is estimated that approximately **$67.5 million** was levered by the **$12,733,000** in approved participating loans.

The Small Business Loans Association service continued to be popular. These associations are formed by local groups and assisted by SEDCO to lend money to projects in their local areas. An estimated **889** loans totalling **$4,108,659** were made by these associations. During 1990, **147** associations were formed making a total of **212** since the inception of the program in May, 1989.

Size Distribution

Participation Division

Loan Size	Number	Dollar Amount
$ 0 - 25,000	70	$ 1,398,000
25,000 - 50,000	47	2,026,000
50,000 - 75,000	9	648,000
75,000 - 100,000	9	885,000
100,000 - 150,000	14	1,997,000
150,000 - 250,000	9	1,939,000
250,000 - 300,000	13	3,840,000
	180	$12,733,000

Properties

SEDCO was involved in a number of projects during 1990. The 27,000-square-foot greenhouse and research facility in Saskatoon completed its first year of operation. Named in honour of Dr. L.F. Kristjanson, this project provides greenhouse and research space to small research companies and agencies in Innovation Place.

The Atrium, a three-storey office and laboratory building, is near completion.

Both projects are located in Innovation Place, a 120 acre research park located adjacent to the University of Saskatchewan. SEDCO developed this park as a tool of economic diversification. It is aimed at attracting a concentration of advanced scientific and technological activity in Saskatchewan. During 1990, Innovation Place was named by an international research group as ranking within the world's top 20 research parks.

Other facilities ranging from a Moose Jaw manufacturer of wire cable reels to a new Saskatoon agricultural chemical and biotechnology company involved in production of protective seed-coating were completed in 1990.

Approximately 107 person years of employment were created as a direct result of the Properties Division construction activities. Rental income totalled $6.2 million, an increase of approximately $350,000 compared with 1989.

Rental Income

	1986
	1987
	1988
	1989
	1990

Provincial Economic Benefits

SEDCO's impact on the provincial economy during the year was significant. The corporation's loan and construction activities, including participating loans and small business loans associations, resulted in the creation of 2,980 direct jobs. Wage values related to these jobs were in excess of $80 million, with increased tax revenues accruing to the provincial government of approximately $6.2 million. Activities initiated in past years continue to produce benefits, sustaining an additional 6,892 jobs with an approximate wage value of $188 million and provincial tax revenues in excess of $14.4 million. Benefits arising from the corporation's provision of rental properties and spin-off effects have not been included in these figures. Therefore, the actual impact of SEDCO's activities is far greater than reported.

PROVINCIAL ECONOMIC BENEFITS

	1990		1989	
	Created	Continuing	Created	Continuing
I. Employment				
Loans	260	3,270	384	2,450
Lease Options	19	120	49	140
Participation & Small Business	2,305	3,106	1,020	1,020
Construction-Loan clients	289	289	158	158
Construction-Direct	107	107	64	64
Total:	**2,980**	**6,892**	**1,675**	**3,832**
II. Wage Value				
Loans	$ 6,097,000	$ 89,327,000	$ 7,714,000	$53,522,000
Lease Options	520,000	3,271,000	1,056,000	3,048,000
Participation & Small Business	62,966,000	84,847,000	22,158,000	22,158,000
Construction-Loan clients	7,895,000	7,895,000	3,452,000	3,452,000
Construction-Direct	2,923,000	2,923,000	1,398,000	1,398,000
Total:	**$80,401,000**	**$188,263,000**	**$35,778,000**	**$83,578,000**
III. Tax Revenue				
Loans	$ 546,000	$ 6,867,000	$ 424,000	$ 2,705,000
Lease options	40,000	252,000	54,000	155,000
Participation & Small Business	4,840,000	6,523,000	1,113,000	1,113,000
Construction-Loan clients	607,000	607,000	174,000	174,000
Construction-Direct	225,000	225,000	71,000	71,000
Total:	**$ 6,258,000**	**$14,474,000**	**$ 1,836,000**	**$ 4,218,000**

Management's Responsibility for Financial Statements

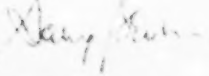
The accompanying financial statements of the Saskatchewan Economic Development Corporation have been prepared by corporate management in accordance with generally accepted accounting principles, and necessarily include some amounts based on informed judgment and management estimates. Financial data presented elsewhere in this Annual Report is consistent with that in the financial statements.

The corporation's independent auditors, Deloitte & Touche, have examined the financial statements of the corporation. The scope of their examination, and their opinion on whether these financial statements present fairly the corporation's financial position and operating results, are given in the Auditors' report.

Insuring the integrity and objectivity of financial information is an integral part of management's responsibility to the ongoing operation. Management maintains an appropriate system of internal accounting controls, policies, and procedures to provide reasonable assurance that all financial transactions are recorded on a timely basis with proper approvals, and result in reliable financial statements.

The Board of Directors has reviewed and approved these financial statements. To assist the Board in meeting its responsibility, it has appointed an Audit Committee which is composed entirely of outside directors. The committee meets periodically with management and is available to meet with the independent auditors to review internal accounting controls, audit results and accounting principles and practices.

On behalf of management,



G. K. Benson
Vice President, Finance & Administration

Auditors' Report

Year Ended December 31

To the Members of the
Legislative Assembly,
Province of Saskatchewan:

We have audited the statement of financial position of the Saskatchewan Economic Development Corporation as at December 31, 1990 and the statements of operations and deficit and of changes in financial position for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 1990 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Deloitte + Touche

Chartered Accountants

January 28, 1991
Regina, Saskatchewan

Statement of Financial Position

As At December 31
(Thousands of Dollars)

	1990	1989 (Restated - Note 3)
Assets		
Short term investments	$ —	$ 3,591
Loans (Note 4)	162,077	161,189
Share investments (Note 5)	4,109	3,522
Property holdings (Note 6)	84,255	65,571
Other	2,011	1,500
	$252,452	$235,373
Liabilities and Province's Deficiency		
Bank indebtedness	$ 832	$ 517
Accounts payable and accrued liabilities	7,290	9,337
Notes payable (Note 7)	68,038	54,680
Long term debt (Note 8)	201,566	176,566
	277,726	241,100
Province of Saskatchewan's Deficiency		
Advances (Note 9)	50,000	50,000
Deficit	(75,274)	(55,727)
	(25,274)	(5,727)
	$252,452	$235,373

Approved by the Board

Rob Orr, Director and Chairman
Audit and Finance Committee

Douglas S. Price, President
and Director

(see accompanying notes)

Statement of Operations and Deficit

Year Ended December 31
(Thousands of Dollars)

	1990			1989
	General Operations	Participation Division (Note 10)	TOTAL	TOTAL (Restated - Note 3)
Revenue				
Loans and investments	$14,233	$ 84	$14,317	$13,427
Property	6,439	—	6,439	5,954
	20,672	84	20,756	19,381
Expenses				
Rental property	3,694	—	3,694	3,559
General corporate	4,250	1,161	5,411	4,430
	7,944	1,161	9,105	7,989
Income (loss) before the following	12,728	(1,077)	11,651	11,392
Interest expense	21,728	2,685	24,413	15,841
Provision for losses on loans	2,929	1,493	4,422	8,308
Write-down of property and share investments to net realizable value	2,363	—	2,363	767
Loss For Year	14,292	5,255	19,547	13,524
Deficit, beginning of year	54,727	1,000	55,727	42,203
Deficit, End of Year	$69,019	$ 6,255	$75,274	$55,727

(see accompanying notes)

Statement of Changes in Financial Position

Year Ended December 31
(Thousands of Dollars)

	1990	1989 (Restated - Note 3)
Cash provided by (used in) operating activities		
Loss for year	$(19,547)	$(13,524)
Add non-cash items		
Depreciation	668	582
Provision for losses on loans	4,422	8,308
Write-down of property and share investments	2,363	767
	(12,094)	(3,867)
Loans:		
Disbursements	(52,984)	(48,505)
Repayments	35,227	17,051
Property disposals financed	(667)	(3,216)
Share investments:		
Acquisitions	(1,100)	(1,470)
Dispositions	2,650	645
Property holdings:		
Acquisitions	(10,588)	(8,300)
Dispositions	677	843
Dispositions financed by loans	667	3,216
Net change in other non-cash items	(462)	(505)
Cash used in operating activities	(38,674)	(44,108)
Cash provided by financing activities		
Proceeds of long term debt	25,000	25,000
Additions to notes payable - net	13,359	19,504
Cash provided by financing activities	38,359	44,504
(Decrease) increase in cash during year	(315)	396
Bank indebtedness, beginning of year	(517)	(913)
Bank indebtedness, end of year	$ (832)	$ (517)

(see accompanying notes)

Notes to the Financial Statements

December 31, 1990

1. Significant Accounting Policies

a) ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts in arrears are reviewed on a regular basis by management. Where a potential loss is identified, the exposure is compared to the estimated value of the security and an appropriate provision established. Interest revenue is not accrued for accounting purposes on loans where a write-off is anticipated.

In addition, a general provision is taken against potential doubtful accounts in the participating loans service.

b) DEPRECIATION

With the exception of Innovation Place, depreciation on rental assets is calculated using the amortization method. The assets are amortized over 25 years, assuming an interest cost of 10%.

The depreciation on the Innovation Place property is provided under the sinking fund method. Under this method depreciation is charged to income in amounts which increase annually consisting of fixed annual sums together with interest compounded at the rate of 5% per annum so as to fully depreciate the property over its estimated useful life. The property consists of buildings with an estimated useful life of 50 years and sites and improvements with an estimated useful life of 33 years.

c) PROPERTY

Property under development is carried at the lower of cost and net realizable value.

The Corporation capitalizes the following in arriving at the cost of property under development:

- Land acquisition costs
- Direct development costs
- Administration costs allocated
- Interest

Where the net realizable value of specific properties being held for development does not exceed book value, interest relating to the property is charged to current operations.

Estimated total development costs are taken into consideration in calculating gains or losses on sale of parcels of land forming part of industrial development. Sales are recognized at the date nonconditional offers to purchase are approved by the Corporation and appropriate consideration has been received.

Rental properties and office furniture and equipment are carried at the lower of depreciated cost and net realizable value.

d) SHARE INVESTMENTS

The Corporation has acquired shares in both public and private companies which are carried at the lower of cost and net realizable value. Where there is a parent-subsidiary relationship, the subsidiary is not consolidated with the accounts of the Corporation when a formal plan exists to dispose of the investment. When no formal plan exists to dispose of the investment, the investment is accounted for by the equity method. When investments are carried at cost, dividends are recorded as income when received.

2. Status Of The Corporation

The Corporation was incorporated in 1963 pursuant to The Industrial Development Act. The financial results of the Corporation are included in the consolidated financial statements of the Crown Management Board of Saskatchewan. In its capacity as a crown corporation, the Corporation acts as an agent for the Province in conducting lending and other services for the purposes of economic development and diversification in the province.

3. Prior Period Adjustment

During the year the Corporation assumed full responsibility for the operations of the participating loans service and the small business loans association service. The results of operations and balances pertaining to these services have been incorporated into the financial statements retroactively, resulting in a restatement of the prior year's figures. The changes reflected in the prior year's figures are increases in general and corporate expenses of $738,000, a reduction to interest expense of $1,005,000, and an increase in provision for losses on loans of $1,267,000, resulting in an increase in the loss for the year and deficit of $1,000,000. Loans increased by $11,558,000, accounts payable decreased by $4,942,000 and notes payable increased by $17,500,000.

4. Loans

	1990	1989
	(in thousands)	
Loan principal receivable		
– Regular loans	$128,455	$138,095
– Participation loans	24,193	12,302
– Small business loans	4,391	485
	157,039	150,882
Interest accrued and receivable		
– Regular loans	4,139	6,344
– Participation loans	23	—
	4,162	6,344
Loan costs receivable		
– Regular loans	614	739
– Participation loans	14	38
	628	777
Agreements for sale	4,932	5,994
Lease options less unearned income of $6,612,258 (1989 - $6,568,319)	10,019	9,498
	176,780	173,495
Less accumulated provision for		
– Regular loans	12,560	11,039
– Participation loans	2,083	1,267
– Small business loans	60	—
	14,703	12,306
	$162,077	$161,189

Included in regular loans is $6,543,000 (1989 - $7,439,000) from Westank Industries Ltd. a subsidiary. During 1990, the Corporation accrued interest on these loans totalling $79,500 (1989 - $410,000). No payments were received in 1990 (1989 - $1,084,000).

Included in loans are $4,219,000 to companies whose Directors are also Directors of the Corporation.

5. Share Investments

	1990	1989
	(in thousands)	
At Cost		
Shares in subsidiary companies	$ 15,747	$ 17,297
Shares in listed companies	4,855	355
Shares in unlisted companies	700	700
	21,302	18,352
Accumulated provision for losses	17,193	14,830
	$ 4,109	$ 3,522

During the year the corporation made an additional investment of $1,100,000 in shares to obtain a 100% ownership in a subsidiary company. The net assets of the company were subsequently sold. Proceeds of $2,650,000 received by the Corporation were applied against the investment in shares.

Notes to the Financial Statements

December 31, 1990

6. Property Holdings

	1990	1989
	(in thousands)	
Property under development for industrial purposes	$ 30,540	$ 29,923
Rental properties	47,255	32,799
Rental properties under construction	8,556	4,962
Office furniture & equipment	1,614	1,298
	57,425	39,059
Less accumulated depreciation	3,710	3,411
	53,715	35,648
	$ 84,255	$ 65,571

Depreciation for the year amounted to $668,000 (1989 - $582,000). The average depreciation rate for assets was 2.1 per cent (1989 - 1.8 per cent).

These values include interest capitalized during the year in the amount of $1,148,000 (1989 - $2,477,000).

7. Notes Payable

	1990	1989
	(in thousands)	
Province of Saskatchewan		
March 30, 1990 .....12.25%	$ —	$ 32,500
March 30, 1990 .....0.00%	—	18,051
March 28, 1991 .....11.48%	61,996	—
December 31, 1991 .....0.00%	6,042	4,129
	$ 68,038	$ 54,680

8. Long Term Debt

Province of Saskatchewan		
January 15, 1991 .....9.50%	$ 16,000	$ 16,000
June 1, 1991.....7.08%	5,000	5,000
June 3, 1994.....8.46%	7,383	7,383
October 1, 1995.....9.34%	3,857	3,857
June 1, 1998.....9.41%	8,407	8,407
June 2, 2006.....9.62%	10,000	10,000
July 10, 2007.....9.83%	4,000	4,000
March 3, 2008 .....9.62%	3,000	3,000
August 10, 2008.....10.06%	3,919	3,919
July 12, 2000.....11.25%	25,000	—
	86,566	61,566
Crown Management Board of Saskatchewan		
December 30, 1991 .....9.000%	15,000	15,000
February 25, 1993 .....9.750%	40,000	40,000
May 28, 1993.....8.653%	15,000	15,000
November 10, 1993.....10.250%	10,000	10,000
April 16, 1996 .....9.750%	10,000	10,000
July 6, 1999.....9.875%	25,000	25,000
	115,000	115,000
	$201,566	$176,566

$45,566,000 (1989 - $45,566,000) of the Province of Saskatchewan debt with an original term of 20 years, is subject to redemption on 6 months notice.

Notes to the Financial Statements

December 31, 1990

9. Equity Advances

These advances are interest free and are payable at the discretion of the Crown Management Board of Saskatchewan.

10. Participation Division

The participation division administers the participating loans service and the small business loans association service on behalf of the Province of Saskatchewan. Under the participating loans service the repayment of principal and interest is to be based on the profitability of the borrower. No interest is charged on the small business loans association service loans.

Loans outstanding as at December 31, 1990 for these services are $26,478,000 as disclosed in Note 4. Notes payable for the division amount to $32,733,000.

11. Contingent Liabilities

As at December 31, 1990, the Corporation was contingently liable under loan guarantees in the amount of $11,404,000, of which $5,000,000 are to companies whose Directors are also Directors of the Corporation, and $3,621,000 are to subsidiary companies.

12. Commitments

a) The total amount not yet disbursed on loans approved is $44,695,000.

b) The Corporation has approved guarantees which were in force but not used at December 31, 1990 amounting to $921 000.

c) The costs to complete properties approved for development approximate $3,186,000.

13. Pension Plan

Substantially all employees are members of the Crown Investments Corporation of Saskatchewan Pension Plan, which is a defined contribution plan. The Corporation's financial obligation to this plan is limited to making regular payments to the plan to match the amounts contributed by the employees for current services.

14. Related Party Transactions

Included in these financial statements are income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan controlled departments, agencies and corporations with which the Corporation is related. Account balances resulting from these transactions are included in the Statement of Financial Position and are settled on normal trade terms.

Other amounts owing to related parties and their terms of settlement are described separately in the financial statements and the notes thereto.

In order to ensure that related party transactions are handled in an appropriate manner, the Corporation has conflict of interest rules whereby Directors having a relationship with any applicant must absent themselves from Board discussion and approval of the financial assistance to be provided. In all cases where any such financial assistance was provided the Directors have complied with the conflict of interest rules.